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C O N F I D E N T I A L SECTION 01 OF 03 VIENNA 001068

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TAGS: ENRG, ETTC, PREL, EPET, EINV, AU, IR
SUBJECT: (ILSA) OMV REVEALS DETAILS OF IRANIAN GAS DEAL

REF: A) STATE 5378 B) VIENNA 1054

Classified By: Ambassador Susan R. McCaw for reasons 1.4 (b) and (d).

Summary

1. (C) Ambassador met separately on April 24 with OMV CEO Wolfgang Ruttenstorfer and with the Ministry of Foreign Affairs' Political Director, Thomas Mayr-Harting, to convey the USG's strong disapproval of OMV's recent Heads of Agreement with the National Iranian Oil Company (NIOC) to participate in the development of the South Pars Gas Field Phase 12. Mayr-Harting claimed the OMV deal would improve Europe's energy security in the face of Russia's aggressive tactics. The GoA would not act against OMV, as the company had not violated any UN, EU, or Austrian laws.

2. (C) Ruttenstorfer confided that OMV planned to export three bcm annually for 25 years from the South Pars field beginning in 2012 to OMV's LNG regassification facility in Croatia, which should be operational by 2011/2012. Ruttenstorfer maintained that the \$30 billion investment figure, which Iranian press is quoting, is greatly

exaggerated. According to Ruttenstorfer, the \$30 billion figure lumps together an investment of very approximately \$1 billion (plus or minus 40%) by OMV, and estimated revenue for a 25-year period. Ruttenstorfer said the investment would be back-end loaded over a 5-year period, with 10% each in 2008 and 2009 and the largest amounts coming in 2011 and 2012. Ruttenstorfer implied that there had been some kind of link between OMV's participation in the South Pars development and eventual Iranian participation in the Nabucco project. Ruttenstorfer said that, although his recent meeting with Azeri President Aliev had been productive, Azerbaijan could only commit to 3-5 bcm for Nabucco's start-up in 2012. In Ruttenstorfer's view, it would be impossible to fill the eventual 30 bcm capacity of Nabucco without Iranian gas in the long-term. Ruttenstorfer opined that the only alternative to Iranian gas was "to get on a flight for Moscow." End Summary.

GoA: OMV's Iranian Deal Improves Europe's Energy Security

3. (C) On April 24, Ambassador delivered ref A points to Thomas Mayr-Harting, the Ministry of Foreign Affairs' Political Director (highest MFA official available). Ambassador stressed that OMV's April 21 Heads of Agreement with the National Iranian Oil Company (NIOC) to participate in the development of the South Pars Gas Field Phase 12 sent all the wrong messages. It was particularly disturbing at a time when the international community was ratcheting up economic pressure on the Tehran regime in view of Iran's non-compliance with UNSC resolutions. Even if the Heads of Agreement was a preliminary, non-binding contract, it enabled the Iranian Government to score a public relations victory. Furthermore, the deal raised questions under the USG's Iran Sanctions Act (ISA).

4. (C) Mayr-Harting acknowledged that the timing of OMV's announcement was bad, as Austrian media had focused on the Iranian deal, rather than the EU's decision to toughen already existing sanctions against Tehran. However, Mayr-Harting underscored that OMV was a private business, over which the GoA had no control. The GoA would not take any action against OMV, as the company had not violated any UN, EU, or Austrian laws. There was no general EU or UN trade embargo against Iran. Mayr-Harting pointed out that there were other European energy companies -- in Spain and in the Netherlands -- that were also present in Iran.

5. (C) Mayr-Harting said that the U.S. should view the OMV decision in the context of improving Europe's energy security. Everyone agreed that Europe should do more to diversify, especially given Russia's clear propensity to employ energy as a political weapon. Mayr-Harting noted that Iran's large, untapped gas reserves were a logical source to diversify away from Russian gas. Mayr-Harting acknowledged that this was a long-term process, and he noted that there

was broad support for OMV's decision across the Austrian political spectrum.

6. (C) Ambassador pushed back, pointing out that the deal would allow Iran to create a wedge between the U.S. and its allies at a critical moment. The U.S. does not want to hurt the Iranian people; rather we want to drive a wedge between the people and the regime. UN sanctions have started to achieve this goal. Ambassador stressed that we would

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continue to urge OMV to reconsider the deal and its implications.

Three Bcm Starting in 2012 and An Investment of \$1 Billion

7. (C) In a separate meeting also on April 24, Ambassador delivered ref A concerns to Wolfgang Ruttenstorfer, OMV's CEO. Ambassador said it was disappointing that OMV had executed an "end-run," while the international community was cooperating on tightening the screws on the unresponsive Tehran regime. The OMV announcement had delivered a public relations coup for the Iranians. The USG, and especially the U.S. Congress, were serious about enforcing the ISA.

8. (C) Ruttenstorfer maintained that OMV has been searching for suitable LNG sources for its planned LNG regassification terminal in Croatia for the last 1-2 years. According to Ruttenstorfer, possible suppliers, such as Algeria and Egypt, are oversubscribed. This left two options: Qatar or Iran. Ruttenstorfer claimed that "everyone knows the U.S. has a lock on Qatari LNG," leaving Iran as the only viable option. Ruttenstorfer added that OMV was under pressure from its shareholders, including the Abu Dhabi-based International Petroleum Investment Company (17.6% share), to sign supply contracts before committing to construction of the Croatian facility. (Note: OMV officials previously told us that construction of the Croatian LNG facility should begin in 2008/2009 and operations in 2011/2012. End Note.)

9. (C) Ruttenstorfer emphasized that the Heads of Agreement simply authorized OMV and Petropars, an NIOC subsidiary, to commence negotiations on OMV's possible participation in the development of phase 12 of the South Pars Gas Field. Ruttenstorfer noted that Repsol and Shell had recently signed similar agreements with Iran. Ruttenstorfer further stated that the investment figure of \$30 billion, which Iranian press was quoting, was greatly exaggerated. This figure lumped together both an estimated investment of very approximately \$1 billion (plus or minus 40%), and the estimated revenue from exporting 3 bcm annually for 25 years. Ruttenstorfer stressed that Iran would not receive any cash flow until 2012, when OMV hoped to begin exporting gas. He

said that by 2012, he "would be surprised, if the Iranian Government looked like it does today." According to Austrian press, OMV will receive a 10% share in the revenues from the South Pars project, and the project is the biggest ever between Iran and a European company.

A Nabucco Link?

10. (C) Ruttenstorfer unhesitatingly said that, if OMV had not seized the opportunity to develop South Pars phase 12, the Nabucco project would have been placed in jeopardy. When the Ambassador pressed Ruttenstorfer on a connection with Nabucco, Ruttenstorfer claimed there was no direct link, only a "psychological" link. He opined that, if OMV did not participate in the South Pars project, no Iranian regime would be willing to consider participation in Nabucco for at least 10 years.

11. (C) Ruttenstorfer said his recent meeting with Azerbaijani President Aliev had gone well, but Azerbaijan could only promise 3-5 bcm for Nabucco's planned start-up in 2012. Ruttenstorfer stated that this was insufficient for a pipeline with an eventual capacity of 30 bcm. Kazakhstan and Turkmenistan would only participate in Nabucco over the long-term. In Ruttenstorfer's view, it would be impossible to fill Nabucco's capacity without tapping into Iran's large gas reserves at some point. Ruttenstorfer opined that the alternative to Iranian gas "was to get on the next flight to Moscow."

12. (C) Ruttenstorfer said he was not concerned about Hungary's recent public statements calling into question its participation in Nabucco. Hungary was understandably concerned about Nabucco's supply. Russia was indeed fomenting problems in Hungary, as it does everywhere, by claiming there were only three places to purchase gas: Russia, Iran, and Qatar. Ruttenstorfer said the Russians claimed the U.S. has a lock on the Qatari market. According to Ruttenstorfer, the Russians propagate the theory that, because the U.S. dislikes Iran more than Russia, Europe can only buy gas from Russia.

13. (C) Ruttenstorfer concluded by stressing that he wanted to be up-front with the U.S. regarding OMV's plans in Iran.

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He understood the U.S. would not condone the deal, but he claimed OMV's choices were limited. He added that "Russia is not happy with us, and now the U.S. is not happy with us." He added that OMV understood the implications of the ISA.

Comment

14. (C) As reported in ref B, OMV never revealed to us its intentions to participate in the development of the South Pars field, despite frequent interaction with the Embassy at all levels. Although Ruttenstorfer claimed there was no direct link between the South Pars development and Nabucco, he clearly implied that the success of Nabucco depended, in his view, on OMV's commitment to export LNG from the South Pars field. Previously, Ruttenstorfer had always told us, as well as visiting Washington officials, that OMV would consider Iran only as a "long-term option" for Nabucco. "Long-term" for OMV clearly has now taken on a new meaning.

15. (C) Austrian media and the Austrian political class are vocally defending OMV's Iranian deal. Foreign Minister Plassnik welcomed the deal as improving Europe's energy security, as did former Chancellor (and current OVP Party Leader) Schuessel. The media is speculating on possible U.S. sanctions against OMV. However, the GoA and OMV believe the absence of general UN or EU economic sanctions put the company on firm legal ground.

McCaw

=====CABLE ENDS=====